

AR32

~~Ted~~

Gd. Concepts

YB&H



**Benson & Hedges (Canada) Limited  
Annual Report 1977**







## **Contents**

---

Review of the Year
Selection of Products
Benson & Hedges and the Community
Consolidated Balance Sheet
Consolidated Statement of Earnings
Consolidated Statement of Retained Earnings
Consolidated Statement of Changes in Financial Position
Notes to Consolidated Financial Statements
Auditors' Report
Five Year Summary
Directors and Officers





## Review of the Year

---



William H. Webb  
President

Consolidated sales for the Company in 1977 were \$196,371,000 compared with \$214,487,000 in 1976. Cigarette sales in 1977 were 8.3 billion units, and the Company's domestic market share for the year was 13.2%.

A combination of lower sales volume and inflationary cost increases resulted in a decline in net earnings from \$6,742,000 to \$6,572,000 in 1977. Despite this decline, your Company, with the approval of the Anti-Inflation Board, was pleased to declare and pay a stock dividend of \$1,791,000 in 1977 for the 508,561 issued shares and a cash dividend of \$3,227,000.

### Marketing

During 1977, marketing activity in the Canadian cigarette industry was concentrated in the lowered tar and nicotine segment of the market.

In order to provide a sound base for future long term growth, the Company placed primary emphasis on brands participating in this rapidly expanding segment. Viscount posted a 29% sales

increase with growth coming from the established Virginia and Menthol versions of the brand. In addition, the national introduction of Viscount No. 1 Ultra Light contributed to the brand family's overall growth. Belvedere Extra Milds registered growth and increased its level of consumer acceptance. The brand is well positioned in the mild category and should contribute to the stabilization of the overall Belvedere family of products, which includes the highly recognizable Belvedere blue package and its "denim lifestyle" advertising campaign. A new pack design and contemporary advertising campaign helped to stabilize the sales of Benson & Hedges 100's. In addition, Benson & Hedges Lights King Size were placed in test market in London, Ontario, with encouraging results. Belmont Milds, the first Canadian cigarette to incorporate activated charcoal as a natural filtering agent, continued to find favour among Canadian smokers. Mark Ten recorded a small volume decline, but continued to contribute substantial volume for the Company. Although industry fine cut sales declined in 1977, Benson & Hedges brands showed an increase in market share to 13.3% compared with 13.1% in 1976.

### Operations

During 1977, the Company continued with its commitment to a major modernization program. Notable developments were seen in the cigarette making and packing areas, where the newly installed computerized sensor devices contributed significantly to improving product quality. While sustaining this level of quality, new high speed makers and packers were installed.

In addition to the modernization program in progress in the factories, operations management was decentralized to ensure achievement of stringent product quality standards. As a result, Operations Directors have been appointed for each factory and located on site in order to direct day-to-day activities.

Benson & Hedges, along with the other three Canadian cigarette manufacturers, entered into an agreement to contribute approximately \$9,730,000 in subsidies to promote the sale of the export portion of the 1977 Ontario leaf crop outside of Canada. Benson & Hedges' proportional contribution to this subsidy was \$1,000,000.



While this is a significant allocation of resources, the contribution was seen as essential to participate in the expansion of Canada's export sales. Additionally, Benson & Hedges undertook to promote and sell 2,000,000 pounds of Canadian leaf in export markets. As a result of this agreement and the individual tobacco companies' sales efforts, total industry export sales are likely to be in excess of \$75,000,000.

### **Smoking and Health**

The year 1977 saw continued activities by anti-smoking groups and some volunteer health agencies to obtain support to ban smoking in public places, without establishing conclusive clinical evidence that cigarettes cause disease in smokers or in non-smokers. These activities, while gaining much public attention, have not encouraged efforts in the area of scientific research.

It is believed that a sensible and realistic approach is one of scientific research, including investigation into the broad spectrum of all environmental and behavioural data, and should not be centred on tobacco alone. Benson & Hedges, in cooperation with other Canadian cigarette manufacturers through the Canadian Tobacco Manufacturers Council, continues its financial support of independent medical research into the diseases attributed to smoking.

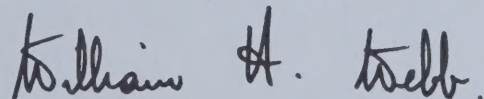
### **Community Services**

Benson & Hedges continues to support cultural and social activities in the communities in which we work and live. In meeting the responsibilities the Company shares as a member of these communities, vacant plant land owned by Benson & Hedges was made available to the Township of Delhi for use as an athletic park by the people of the township. The Company's specially-equipped promotion vehicles were used throughout the year to support many social activities in local communities; and in Montreal, advertising billboards, normally used by the Company for advertising messages, were used to exhibit Quebec artists' paintings through the Company's "L'Art dans la Rue" program. Canadian writers also received support from the Company through the annual Benson & Hedges Magazine Writing Awards competition. Awards were

presented for the best published fictional short story in English and French.

It is with the deepest regret that we report the death of Mr. Paul Bienvenu. Mr. Bienvenu was elected a Director of Benson & Hedges (Canada) Limited on January 23, 1964, and became a Director Emeritus for the Company on January 16, 1976. He also served as a member on the Board of Directors for a number of other Canadian companies. His contribution to the Company will be greatly missed.

The Benson & Hedges Board of Directors expresses sincere thanks for the generous support of all employees throughout a difficult sales year in 1977. The results achieved last year do not truly reflect the dedicated efforts and commitment of our employees to the Company. We are confident in the ability of our employees to achieve additional gains in sales performance and production efficiency in 1978. I am personally delighted to be back in Canada again, and look forward to working with all members of the Company towards improved results in 1978.



William H. Webb  
President





## Selection of Products







## Benson & Hedges and the Community

---



In Montreal, advertising billboards were used to exhibit Quebec artists' paintings through the Company's "L'Art dans la Rue" program.

Specially equipped Benson & Hedges promotion vehicles were made available to various organizations to support local cultural and recreational activities.







## Consolidated Balance Sheet as at December 31, 1977

Benson & Hedges (Canada) Limited and Subsidiary Company

<b>Assets</b>	<b>1977</b>	<b>1976</b>
<b>Current Assets</b>		
Notes receivable - current portion	\$ 1,738,000	\$ 1,536,000
Accounts receivable (note 3)	24,742,000	30,204,000
Accounts receivable - affiliates	357,000	257,000
Income taxes recoverable	733,000	—
Inventories (note 4)	47,262,000	45,848,000
Prepaid expenses	422,000	566,000
Total current assets	75,254,000	78,411,000
<b>Notes Receivable - less current portion</b>	<b>17,583,000</b>	<b>18,768,000</b>
<b>Fixed Assets (note 5)</b>		
Land, buildings and equipment - at cost	36,371,000	34,505,000
Accumulated depreciation	13,820,000	13,108,000
	22,551,000	21,397,000
	<u>\$115,388,000</u>	<u>\$118,576,000</u>
<b>Liabilities</b>	<b>1977</b>	<b>1976</b>
<b>Current Liabilities</b>		
Bank indebtedness	\$ 19,978,000	\$ 26,050,000
Notes payable	24,886,000	24,946,000
Accounts payable and accrued liabilities	14,800,000	14,828,000
Accounts payable - affiliates	171,000	—
Income taxes payable	—	699,000
Total current liabilities	59,835,000	66,523,000
<b>Deferred Income Taxes</b>	<b>3,373,000</b>	<b>4,450,000</b>
	<u>63,208,000</u>	<u>70,973,000</u>
<b>Shareholders' Equity</b>		
Capital Stock		
Authorized -		
6,000,000 shares without nominal or par value		
Issued and fully paid -		
4,577,085 shares (1976 - 4,068,524) (note 9)	22,134,000	20,343,000
<b>Retained Earnings</b>	<b>30,046,000</b>	<b>27,260,000</b>
	52,180,000	47,603,000
	<u>\$115,388,000</u>	<u>\$118,576,000</u>

Signed on Behalf of the Board

*William H. Webb*

Director

*Norman J. L. L.*

Director





Robertson

## Consolidated Statement of Earnings

Benson & Hedges (Canada) Limited and Subsidiary Company  
For the Year Ended December 31, 1977

	1977	1976
<b>Sales</b>	<b>\$196,371,000</b>	<b>\$214,487,000</b>
Less: Excise and sales taxes	<u>107,589,000</u>	<u>117,295,000</u>
	<b>88,782,000</b>	<b>97,192,000</b>
<b>Costs</b>		
Manufacturing, distributing, selling, general and administrative	<b>75,526,000</b>	80,979,000
Depreciation	<b>2,102,000</b>	2,040,000
Interest on long-term debt	—	115,000
Other interest - net	<u>1,296,000</u>	<u>1,620,000</u>
	<b>78,924,000</b>	<b>84,754,000</b>
<b>Earnings Before Income Taxes</b>	<b>9,858,000</b>	<b>12,438,000</b>
<b>Provision for Income Taxes</b>		
Current	<b>4,131,000</b>	5,190,000
Deferred	<u>(1,077,000)</u>	<u>107,000</u>
	<b>3,054,000</b>	<b>5,297,000</b>
<b>Earnings Before Extraordinary Item</b>	<b>6,804,000</b>	7,141,000
<b>Extraordinary Item</b>		399,000
Losses on planned disposal of certain assets (note 2)	<u>232,000</u>	<u>1.66</u>
<b>Net Earnings for the Year</b>	<b>\$ 6,572,000</b>	<b>\$ 6,742,000</b>

## Consolidated Statement of Retained Earnings

Benson & Hedges (Canada) Limited and Subsidiary Company  
For the Year Ended December 31, 1977

	1977	1976
<b>Balance - Beginning of Year</b>	<b>\$27,260,000</b>	<b>\$20,518,000</b>
Net earnings for the year	<u>6,572,000</u>	<u>6,742,000</u>
	<b>33,832,000</b>	<b>27,260,000</b>
Dividends - cash	<b>3,227,000</b>	—
- stock (note 9)	<u>1,791,000</u>	<u>—</u>
	<b>5,018,000</b>	<b>—</b>
Refundable dividend tax recovery (note 11)	<u>1,232,000</u>	<u>—</u>
<b>Balance - End of Year</b>	<b>\$30,046,000</b>	<b>\$27,260,000</b>





## Consolidated Statement of Changes in Financial Position

Benson & Hedges (Canada) Limited and Subsidiary Company  
For the Year Ended December 31, 1977

	1977	1976
<b>Source of Working Capital</b>		
Earnings before extraordinary item	\$ 6,804,000	\$ 7,141,000
Add items not affecting working capital -		
Depreciation	2,102,000	2,040,000
Deferred income taxes	(1,077,000)	107,000
Provided from operations	7,829,000	9,288,000
Disposal of fixed assets	470,000	251,000
Notes receivable	1,185,000	1,533,000
Refundable dividend tax	1,232,000	—
Source of working capital	10,716,000	11,072,000
<b>Use of Working Capital</b>		
Cash dividends	3,227,000	—
Repayment of long-term debt	—	9,985,000
Additions to fixed assets	3,726,000	4,621,000
Net reduction in working capital resulting from losses on planned disposal of certain assets	232,000	97,000
Use of working capital	7,185,000	14,703,000
<b>Increase (Decrease) in Working Capital</b>	3,531,000	(3,631,000)
<b>Working Capital - Beginning of Year</b>	11,888,000	15,519,000
<b>Working Capital - End of Year</b>	\$15,419,000	\$11,888,000

## Notes to Consolidated Financial Statements

Benson & Hedges (Canada) Limited and Subsidiary Company  
For the Year Ended December 31, 1977

### 1. Summary of Accounting Policies

The significant accounting policies followed by Benson & Hedges (Canada) Limited and subsidiary company are presented below to assist the reader in reviewing the Consolidated Financial Statements and other data contained in this report. These policies comply with generally accepted accounting principles and have been consistently applied.

#### (a) Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiary B & H Retail Limited.

#### (b) Receivables

Current earnings are charged and an allowance is credited with a provision for doubtful accounts based on experience and on any unusual circumstances which may affect the ability of customers to meet their obligations. Accounts deemed uncollectible are charged against this allowance. Receivables are reported on the Balance Sheet net of such accumulated allowances.

#### (c) Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of Leaf Tobacco is determined on an average cost basis and the cost of other inventories is determined generally on a first in, first out basis. It is a generally recognized industry practice to classify the total amount of Leaf Tobacco as a current asset although part of such inventory, because of the duration of the aging process, ordinarily would not be utilized within one year.

#### (d) Fixed Assets

Maintenance and repairs are charged against income and expenditures for renewals and improvements are capitalized. Provision for depreciation of assets is recorded by a charge against income at the following rates:

Assets	Rates
Land improvements	10%
Building and building equipment	2.5%/10%
Machinery and equipment	6 $\frac{2}{3}$ %-20%
Furniture, fixtures and data processing equipment	10%-33 $\frac{1}{3}$ %
Transportation equipment	25%
Leasehold improvements	Term of lease





## Notes to Consolidated Financial Statements

Benson & Hedges (Canada) Limited and Subsidiary Company  
For the Year Ended December 31, 1977

### 1. Summary of Accounting Policies (cont.)

The above rates are considered adequate to amortize the cost of such assets over their useful lives using the straight line method of computation.

#### (e) Income Taxes

The provision for income taxes is calculated separately on reported pre-tax earnings for the Parent Company and its subsidiary. Certain items of income and expense included in the Financial Statements, such as depreciation, are claimed in different years for tax purposes in accordance with applicable income tax laws. The resulting difference between the Financial Statement income tax provision and income taxes currently payable is reported in the Financial Statements as deferred income taxes.

#### (f) Pension Plans

The Company and its subsidiary have pension plans covering substantially all of their employees. Prior service costs are amortized over periods of up to fifteen years and accrued pension costs are funded with independent trustees.

### 2. Losses on Planned Disposal of Certain Assets

The company has recorded an actual loss of \$343,000 and a provision in the amount of \$61,000 less applicable taxes of \$172,000 for operating losses on the planned disposal of certain assets of its wholly-owned subsidiary B & H Retail Limited.

### 3. Accounts Receivable

Accounts receivable include trade receivables of \$23,622,000 in 1977 and \$29,371,000 in 1976 offset by allowances for doubtful accounts and for sales discounts of \$758,000 in 1977 and \$986,000 in 1976.

### 4. Inventories

Inventory components are as follows:

	1977	1976
Leaf Tobacco	\$35,810,000	\$35,329,000
Packaging and other raw materials	1,893,000	1,828,000
Work in process	388,000	279,000
Finished goods	7,632,000	7,016,000
Machine parts and supplies	1,539,000	1,396,000
Total inventories	<u>\$47,262,000</u>	<u>\$45,848,000</u>

### 5. Fixed Assets

	1977			1976		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	\$ 828,000	\$ —	\$ 828,000	\$ 828,000	\$ —	\$ 828,000
Land improvements	100,000	52,000	48,000	99,000	44,000	55,000
Buildings and building equipment	8,233,000	2,991,000	5,242,000	8,095,000	2,665,000	5,430,000
Machinery and equipment	20,753,000	8,893,000	11,860,000	19,120,000	8,096,000	11,024,000
Furniture, fixtures and data processing equipment	1,376,000	713,000	663,000	1,133,000	716,000	417,000
Transportation equipment	1,422,000	626,000	796,000	1,350,000	361,000	989,000
Leasehold improvements	805,000	545,000	260,000	1,684,000	1,226,000	458,000
Construction and machinery installation in progress	2,854,000	—	2,854,000	2,196,000	—	2,196,000
	<u>\$36,371,000</u>	<u>\$13,820,000</u>	<u>\$22,551,000</u>	<u>\$34,505,000</u>	<u>\$13,108,000</u>	<u>\$21,397,000</u>

The provision for depreciation included in the statements of earnings for 1977 and 1976 is \$2,102,000 and \$2,040,000 respectively computed on the straight line method.

### 6. Rental Expense

Total rental expense included in the statements of earnings for the years ended December 31, 1977 and December 31, 1976 was \$700,000 and \$1,063,000 respectively.

The minimum rental commitments under all non-cancellable leases for each of the five years ending December 31 are as follows:

1978	\$500,000	1979	\$462,000	1980	\$455,000	1981	\$178,000	1982	\$ 27,000
------	-----------	------	-----------	------	-----------	------	-----------	------	-----------





## Notes to Consolidated Financial Statements

Benson & Hedges (Canada) Limited and Subsidiary Company  
For the Year Ended December 31, 1977

### 7. Remuneration of Directors and Officers

During the year the directors of the Company numbered thirteen (1976 - thirteen) and their aggregate remuneration as directors was \$15,000 (1976 - \$15,000). Five of the Company's directors are also officers of the Company (1976 - five). The officers of the Company numbered nine (1976 - nine) and their aggregate remuneration as officers was \$294,000 (1976 - \$294,000).

### 8. Contingent Liabilities

During 1974, the Company instituted legal action against a supplier to recover the cost of defective materials delivered in prior years to the Formosa Spring Brewery Division in the amount of \$536,000. This action is being defended by the supplier and the supplier has made a counter claim for damages in the amount of \$1,507,000. This claim has been denied and with the advice of counsel, is being vigorously contested. Accordingly, no provision or adjustment has been made in the financial statements.

### 9. Stock Dividend

During the year 508,561 shares were issued for \$3.52 each as a stock dividend.

### 10. Commitments

As at December 31, 1977, the Company has made financial commitments of \$2,136,000 for purchases of equipment and \$2,600,000 for purchases of inventories.

### 11. Refundable Dividend Tax

Certain taxes paid by the Company on investment income are refundable to the Company at the rate of \$1 for every \$3 of taxable dividends paid to shareholders to December 31, 1977 and thereafter at the rate of \$1 for every \$4. During the year the Company recovered, through the payment of dividends, the cumulative refundable tax as at December 31, 1976 as well as the refundable tax on investment income for the current year. Such tax and its recovery is charged and credited to retained earnings.

### 12. Wage and Price Controls

The Company is subject to Government controls, of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975 and is due to expire on December 31, 1978. In all material respects, the Company has complied with the legislation to December 31, 1977.

According to the terms of the legislation and due to the amount of dividends declared and paid during the year, which dividends have been approved by the Anti-Inflation Board, it appears that the Company is prohibited from declaring or paying any further dividends during the period from December 13, 1977 to October 13, 1978 without prior approval by the Anti-Inflation Board.

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Benson & Hedges (Canada) Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand  
Chartered Accountants  
January 6, 1978





## Benson & Hedges (Canada) Limited

For the Year Ended December 31, 1977

### Five Year Summary

(Canadian \$ ,000 omitted)

	1977	1976	1975	1974	1973
Sales	<b>\$196,371</b>	\$214,487	\$200,398	\$173,078	\$170,389
Earnings Before Income Taxes and Extraordinary Items	<b>\$ 9,858</b>	12,438	15,007	6,562	5,922
Net Earnings	<b>\$ 6,572</b>	6,742	8,429	3,696	3,255
Capital Expenditures	<b>\$ 3,726</b>	4,621	5,062	3,925	9,412
Working Capital	<b>\$ 15,419</b>	11,888	15,519	8,512	6,519
Shareholders' Equity	<b>\$ 52,180</b>	47,603	40,861	32,432	28,736
After-Tax Return on Shareholders' Equity	<b>13.2%</b>	15.2%	23.0%	12.1%	12.0%
Sales Units (Billions of Cigarettes)	<b>8,262</b>	9,066	8,703	8,103	7,800
Number of Employees	<b>1,149</b>	1,288	1,301	1,213	1,415





## Directors and Officers

---

### Directors

**Hugh Cullman**  
Chairman of the Board  
President, Philip Morris International

**Georges Audet**  
Director  
Partner, Lafleur, Brown, de Grandpré

**John B. Claxton, Q.C.**  
Director  
Partner, Lafleur, Brown, de Grandpré

**Norman Janelle**  
Director  
Vice President, Chief Administrative Officer  
Philip Morris Asia-Canada

**Hamish Maxwell**  
Director  
Executive Vice President,  
Philip Morris International

**Ross R. Millhiser**  
Director  
President, Philip Morris Incorporated

**R. William Murray**  
Director  
Vice President, Philip Morris International

**Oscar Y. Primeau**  
Director  
Vice President, Benson & Hedges (Canada) Limited

**John G. Pritchard**  
Director  
Vice President, Benson & Hedges (Canada) Limited

**The Hon. Maurice Sauvé, P.C.**  
Director  
Vice President, Administration  
Consolidated Bathurst Limited

**William Stevenson**  
Director  
President, Millbrook Industries Limited

**William H. Webb**  
Director  
President, Benson & Hedges (Canada) Limited

### Officers

**Hugh Cullman**  
Chairman of the Board

**William H. Webb**  
President

**Norman Janelle**  
Secretary and Treasurer

**Oscar Y. Primeau**  
Vice President Corporate Relations

**John G. Pritchard**  
Vice President Manufacturing and Leaf

**Ronald Robinson**  
Vice President Finance  
and Administration

**John J. O'Brien**  
Vice President Marketing

**Dennis Robertson**  
Controller

**Georges Audet**  
Assistant Secretary

### Auditors

Coopers & Lybrand

### Bankers

The Royal Bank of Canada  
The Bank of Montreal

### Legal Counsel

Lafleur, Brown, de Grandpré  
Miller, Thompson, Sedgewick,  
Lewis & Healy







